5763-1

Calendar No. 518

99TH CONGRESS *2d Session*	SENATE	REPORT 99-238

TO ESTABLISH, FOR THE PURPOSE OF IMPLEMENTING ANY ORDER ISSUED BY THE PRESIDENT FOR FISCAL YEAR 1986 UNDER ANY LAW PROVIDING FOR SEQUESTRATION OF NEW LOAN GUARANTEE COMMITMENTS, A GUARANTEED LOAN LIMITATION AMOUNT APPLICABLE TO CHAPTER 37 OF TITLE 38, UNITED STATES CODE, FOR FISCAL YEAR 1986.

iii + 22 p

25 p.

REPORT

OF THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

TO ACCOMPANY

S. 2052

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1008-D

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FEBRUARY 24, 1986.—Ordered to be printed

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CONTENTS

	Page
Text of the bill, S. 2052	1
Introduction and summary	1
Discussion:	
Background	2
Inaccuracy of the estimate	3
Provisions of the committee bill	5
Cost estimate	5
Regulatory impact statement	9
Section-by-section analysis of S. 2052 as reported	9
Appendix	11

Calendar No. 518

99TH CONGRESS
2d Session

SENATE

REPORT
99-238

TO ESTABLISH, FOR THE PURPOSE OF IMPLEMENTING ANY ORDER ISSUED BY THE PRESIDENT FOR FISCAL YEAR 1986 UNDER ANY LAW PROVIDING FOR SEQUESTRATION OF NEW LOAN GUARANTEE COMMITMENTS, A GUARANTEED LOAN LIMITATION AMOUNT APPLICABLE TO CHAPTER 37 OF TITLE 38, UNITED STATES CODE, FOR FISCAL YEAR 1986

FEBURARY 24, 1986.—Ordered to be printed

Mr. MURKOWSKI, from the Committee on Veterans' Affairs, submitted the following

REPORT

[To accompany S. 2052]

The Committee on Veterans' Affairs, to which was referred the bill (S. 2052) to establish, for the purpose of implementing any order issued by the President for fiscal year 1986 under any law providing for sequestration of new loan guarantee commitments, a guaranteed loan limitation amount applicable to chapter 37 of title 38, United States Code, for fiscal year 1986, having considered the same, reports favorably thereon with an amendment and recommends that the bill, as amended, do pass.

TEXT OF THE BILL, S. 2052

The text of the bill as reported is as follows:

> That, for the purpose of implementing any order issued by the President for fiscal year 1986 under a law providing for sequestration of new loan guarantee commitments, the guaranteed loan limitation amount applicable for fiscal year 1986 to loan guarantee commitments under chapter 37 of title 38, United States Code, is an amount equal to **[**$17,600,000,000**]** *$18,200,000,000* reduced by 4.3 percent.

INTRODUCTION AND SUMMARY

S. 2052 was introduced on February 5, 1986, by Senator Alan Cranston, Ranking Minority Member of the Committee and Senator Frank H. Murkowski, the Chairman of the Committee, along with Senators Dennis DeConcini, Strom Thurmond, and John D.

Rockefeller IV, who also serve on the Committee. Since introduction, Senators Abdnor, Baucus, Boren, Denton, Dodd, Gore, Gorton, Grassley, Hawkins, Hollings, Inouye, Kerry, Matsunaga, Mattingly, Sarbanes, Simon, Trible, Warner, and Wilson have joined as cosponsors of the measure.

S. 2052, as introduced, would establish a corrected FY 1986 loan activity baseline estimate to be used to determine the limitation that the order issued by the President on February 1, 1986, under the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) will impose on Veterans' Administration home-loan guaranties under chapter 37 of title 38, United States Code, effective March 1, 1986.

Effective February 24, 1986, the Committee voted unanimously to report favorably S. 2052, with an amendment.

Discussion

BACKGROUND

Chapter 37 of title 38, United States Code, authorizes the VA's home loan guaranty program. Under this program, a veteran is entitled to a maximum loan guaranty of $27,500 for the acquisition (including the refinancing of an existing loan) or improvement of a conventional home, a single-family residential unit in a condominium, or a farm residence, or a maximum loan guaranty of $20,000 for the acquisition of a manufactured home. The VA loan guaranty is designed to substitute, in large measure, for the down payment that would otherwise be required when a veteran purchases a home. Under chapter 37, the loan guaranty is limited to 60 percent of the amount of the loan principal or $27,500, whichever is less, for conventionally build homes and condominium apartments and 50 percent or $20,000, whichever is less, for manufactured homes. Lenders are thus assured of the substantial protection afforded by the VA loan guaranty and are generally willing to make loans to veterans without the necessity of a down payment or with a lower down payment than would otherwise be required. More than 12 million veterans have received over $250 billion in guaranteed loans under this program since its inception in 1944.

The underlying premise of the Committee bill is to prevent this valuable assistance from being drastically and unduly curtailed pursuant to restrictions planned to be placed on it, effective March 1, 1986, under the President's February 1, 1986, sequestration order issued pursuant to section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985.

Under section 252 of that Act, generally known as Gramm-Rudman, the President—to the extent necessary to reduce outlays by amounts sufficient to reach certain reduced budget deficit levels in each of fiscal years 1986 through 1990 and a balanced budget in FY 1991—is required to sequester various forms of budgetary resources, including, for example, new budget authority and credit extension authority such as loan guaranty commitments. For FY 1986, the reduction generally required to be applied to non-exempted, non-defense programs is 4.3 percent.

In order to develop the data necessary to determine whether a Presidential sequestration order is needed so as to keep the Federal deficit within the maximum limit specified for a particular year and, if such a sequestration is necessary, what percentage reductions must generally be made in defense and non-defense programs, section 251(a) requires the Directors of the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) jointly to prepare and submit to the Comptroller General of the United States a report providing that information. Subsequently, section 252(b) of the Act requires the Comptroller General, taking into account the CBO and OMB Directors report, to submit to the President a report dealing with the same matters and specifying any required percentage reductions. (For years after FY 1986, the Directors' and Comptroller General's reports are required to be updated shortly after the beginning of the fiscal year.)

Based on information provided by the VA, the Directors of CBO and OMB, in their January 15, 1986, joint report under section 251(a), estimated that VA guaranteed loans would total approximately $12 billion. Specifically, the OMB Director's estimate was $12,084,543,000 and the CBO Director's was $11,888,500,000. The average of these two—$11,986,522,000—was used in their report and adopted by the Comptroller General in his definitive report under section 251(b).

Also, it appears that they determined, and the Comptroller General agreed, that, to provide for sequestration of 4.3 percent of new loan guaranty commitments, a limitation reducing that amount by $515,420,000, to $11.47 billion, was required.

The President's February 1 Order directed that certain actions be taken "to implement the required sequestration . . . determined by the Comptroller General", including, as specified in paragraph (3) of the Order with respect to non-defense accounts, the sequestration of "new loan guarantee commitments" and various other forms of budgetary resources.

In the February 1 Order, the President also directed the head of each Department or agency to provide information, required by section 252(a)(5) of the Act, specifying "for each program, project, and activity . . . the base from which each sequestration is taken and the amounts which are to be sequestered". In enclosures to a January 31 letter to the Director of OMB, the Acting Administrator of Veterans' Affairs provided such information. The enclosure relating to the loan guaranty program indicated that the "base" amount of "[d]isbursements of new guaranteed loans" is $11,986,522,000 and that the amount being sequestered is $515,420,000—the same figures included in the CBO/OMB report and adopted by the Comptroller General. (A copy of that letter and the enclosure relating to the loan guaranty program are printed in the Appendix to this report.)

INACCURACY OF THE ESTIMATE

Unfortunately, the estimate of $12 billion is inaccurate by a very substantial amount. In section 1(b)(15) of the First Concurrent Resolution on the Budget for FY 1986 (S. Con. Res. 32), VA guaranteed loans were estimated to total $17.6 billion in FY 1986. Based on in-

formation provided by the VA regarding the amounts of loans guaranteed by the VA during the last quarter of FY 1985 and the first quarter of FY 1986, the VA now projects a loan activity level in FY 1986 far greater than $12 billion.

Due largely to lower interest rates and a rapidly expanding housing market, activity in the VA's home-loan guaranty program is far ahead of where it was at this time fiscal last year, during the entirety of which the VA guaranteed $11.45 billion in home loans. Through the first quarter of FY 1985, the VA guaranteed 40,084 loans at a total loan guaranty amount of almost $2.6 billion. Loan activity picked up during the last quarter of FY 1985; in that quarter the VA guaranteed 56,007 loans—a 28.2 percent increase over the third quarter. During the first quarter of the current fiscal year, the VA guaranteed 62,466 loans—a 55.8-percent increase over the first quarter of FY 1985—at a total loan guaranty amount of more than $4.2 billion. Indeed, the VA, in a February 5, 1986, letter to Representative Richard Shelby, Chairman of the House Committee on Veterans' Affairs' Subcommittee on Housing and Memorial Affairs, advised that the agency's "current thinking" is that, without the limitation imposed by the President's order, the VA would guarantee approximately 270,000 loans amounting to $18.2 billion during FY 1986. (A copy of that letter is printed in the Appendix to this report.)

In addition, in a February 5 letter to Representative Shelby, the Director of the Congressional Budget Office advised that based on "final" data for fiscal year 1985 and actual data for the first quarter of FY 1986, it "would currently estimate" that VA loan activity "would result in a total loan volume of between $16 and $17 billion [in FY 1986]." The Director went on to note that "estimates of home loan activity contain a high degree of uncertainty. A wide variety of factors . . . could cause the loan volume to be significantly different from these estimates." (A copy of that letter is also printed in the Appendix.)

Thus, the estimate of a program level of $12 billion in FY 1986 is unrealistic, and sequestration based on the $12 billion level would have an extremely drastic impact on the VA loan guaranty program—resulting in a 32-percent reduction in the total number of loans that would otherwise be guranteed in FY 1986. Focusing just on the final 7 months of FY 1986, the only months affected by sequestration, the effect would be to reduce the amount of loans that would otherwise be guaranteed during those months by approximately 60 percent.

In order to achieve such a reduction, the VA orginally announced on February 6 that it planned, effective March 1, not to approve any guaranty for a loan that either exceeded $90,000, would be made to a veteran who has previously made some use of his or her loan guaranty entitlement (for example, a veteran who has paid in full a loan guaranteed by the VA or a veteran who used only a portion of his or her entitlement for the purchase of a home), or would be made for the purpose of refinancing an existing VA-guaranteed loan. (A copy of the VA's February 6 press release is printed in the Appendix of this report.) Had these restrictions failed to prevent the limitation from being exceeded, the Committee was advised that the VA would suspend the issuance of all

guaranties, beginning on the date that the limitation was reached, until the end of FY 1986.

Subsequently, the VA announced on February 19 that it would not implement any program changes and, in the absence of legislative relief, would reach the $11.5 billion limitation on or about April 1 and, at that point, cease guaranteeing loans for the remainder of FY 1986. Additionally, the VA expressed support for legislation raising the level at which the limitation applies. (A copy of the VA's February 19 press release is printed in the Appendix of this report.)

The Committee is certain that the Congress did not intend for the FY 1986 sequestration process to have the enormous adverse impact on this or any program. This negative impact could have been avoided had a more accurate estimate of projected program activity been made in January.

The Committee intends to monitor guaranteed-loan activity very carefully for the remainder of the fiscal year and directs the VA to provide the Committee on July 1 and August 1 with updated information on total guaranteed-loan activity and estimates for the remainder of the fiscal year. The Committee will obtain such estimates from CBO on those dates as well.

PROVISIONS OF THE COMMITTEE BILL

Without contesting or attempting to revise basic tenets of the Gramm-Rudman law, S. 2052 as reported would simply make a correction in the so-called base amount to which sequestration would apply. To do this, the Committee bill would provide that, for purposes of implementing the President's FY 1986 sequestration order, the VA guaranteed loan limitation amount would be $18.2 billion reduced by the percentage generally being applied under Gramm-Rudman to non-exempted, non-defense programs (4.3 percent)—or $17.417 billion.

This $18.2 billion level is, as previously noted, the same as the program level is equal to the VA's current estimate of loan guaranty activity in FY 1986. The Committee considers $18.2 billion a much more appropriate figure than $12 billion to use as the FY 1986 base.

The Committee notes that this legislation is not intended to resolve or express any view on certain questions regarding the legality of sequestration being made applicable to this program in FY 1986 or of any particular methods by which the VA plans to implement sequestration with respect to this program. It simply provides for a corrected estimate to be used in carrying out the sequestration order and does not address whether the order itself or the sequestering of VA loan guaranty commitments is lawful.

These questions were raised in a February 5 letter from Senator Cranston to the Acting Administrator of Veterans' Affairs, which is printed in the Appendix to this report. A response from the VA has not yet been received.

COST ESTIMATE

In compliance with paragraph 11(a) of rule XXVI of the Standing Rules of the Senate, the Committee, based on information supplied

by the Congressional Budget Office, estimates that there would be savings of $51 million in outlays in FY 1986 resulting from the enactment of the Committee bill and that the costs, in outlays, resulting from the enactment of the Committee bill during fiscal year 1987 and the first 4 years following enactment would be $49 million in fiscal year 1987; $54 million in fiscal year 1988; $19 million in fiscal year 1989; $21 million in fiscal year 1990; and $12 million in fiscal year 1991.

CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 24, 1986

1. BILL NUMBER: S. 2052

2. BILL TITLE: None.

3. BILL STATUS:

As ordered reported by the Senate Committee on Veterans' Affairs, February 24, 1986.

4. BILL PURPOSE:

For the purpose of implementing the order issued by the President for fiscal year 1986 under Public Law 99-177, the Balanced Budget and Emergency Deficit Control Act of 1985, this bill would increase the level of new loan guaranty commitments under chapter 37 of title 38, U.S.C., to an amount equal to $18.2 million reduced by 4.3 percent.

5. ESTIMATED COST TO THE FEDERAL GOVERNMENT:

(by fiscal years, in millions of dollars)

	1986	1987	1988	1989	1990	1991
Budget Authority	0	-2	54	19	0	27
Outlays	-51	49	54	19	21	12

The cost of this bill would fall in budget function 700.

Basis of Estimate

The limitation on new veterans' loan guaranty commitments in the President's order under P.L. 99-177 is approximately $11.5 billion. This bill would raise that limitation to more than $17.4 billion, which would exceed the CBO estimate of the loan activity that would occur in the absence of a limitation.

In 1986 it is estimated that the higher loan limitation would result in an increase in loan origination fees of around $51 million. Outlays in 1986 would fall by an equivalent amount. In 1987 and later years, however, outlays from the Loan Guaranty Revolving Fund would be expected to increase, as the higher volume of 1986 loans resulted in increased default costs.

This estimate was prepared using a computer model that interrelates the various obligation and receipt activities of the Loan Guaranty Revolving Fund based on their historical relationships and projects these factors using past trends and expectations of future economic activity.

6. ESTIMATED COST TO STATE AND LOCAL GOVERNMENT:

The Congressional Budget Office has determined that the budgets of state and local governments would not be directly affected by enactment of this bill.

7. ESTIMATE COMPARISON: None.

8. PREVIOUS CBO ESTIMATE:

A similar bill, H.R. 4130, was introduced in the House of Representatives on February 5, 1986, and a CBO estimate of it was transmitted to the House Committee on Veterans' Affairs on February 14, 1986. The House bill would have instituted a 1986 loan limitation of approximately $16.8 billion. Even though the limitation under the Senate bill is higher than that under the House bill, the impact of the two bills on the CBO baseline would be the same, because the limitation in both bills exceeds the CBO estimate of unrestrained loan activity.

9. ESTIMATE PREPARED BY: K. W. Shepherd (226-2820).

10. ESTIMATE APPROVED BY:

C. G. Nuckols

for James L. Blum
Assistant Director
for Budget Analysis

Regulatory Impact Statement

In compliance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee on Veterans' Affairs has made an evaluation of the regulatory impact which would be incurred in carrying out the Committee bill. The results of that evaluation are described below.

The bill would establish a corrected amount for the guaranteed loan limitation amount being applied in FY 1986 under the Gramm-Rudman law to VA home-loan guaranties under chapter 37 of title 38, United States Code. The Committee finds that S. 2052 as reported would not entail any significant regulation of any individuals or businesses or result in any significant impact on the personal privacy of any individuals and that the paperwork resulting from enactment would be minimal.

Section-by-Section Analysis of S. 2052 as Reported

The Committee bill, S. 2052 as reported, would provide that, for the purpose of carrying out any order issued by the President for FY 1986 under a law providing for the sequestering of new loan guarantee commitments, the guaranteed loan limitation amount applicable for FY 1986 to loan guarantee commitments under chapter 37 of title 38, United States Code, would be an amount equal to $18.2 billion reduced by 4.3 percent (*i.e.*, $17,417,400,000). Thus, for purposes of the February 1, 1986, Presidential Order under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99–177), the estimated base amount of FY 1986 loans guaranteed by the VA from which 4.3 percent would be sequestered would be considered to be $18.2 billion and the FY 1986 limitation on VA guaranteed loans would be $17,417,400,000. The Committee notes that the legislation does not purport to affirm or disaffirm the legality of the sequestration order, the application of sequestration to the VA's loan guaranty program, or any particular means of implementing a limitation on VA-guaranteed loans under sequestration.

APPENDIX

Office of the
Administrator
of Veterans Affairs

Washington DC 20420

Veterans
Administration

JAN 31 1986

In Reply Refer To

Honorable James C. Miller, III
Director
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Miller:

The accompanying information is being transmitted at the direction of the President pursuant to Public Law 99-177.

Sincerely,

Everett Alvarez

EVERETT ALVAREZ JR
Deputy Administrator

Enclosures

PROGRAM, PROJECT, ACTIVITY DETAIL
($000)

Agency: Veterans Administration

Account Title: Loan Guaranty Revolving Fund

Account ID code: 29-00-4025-X-3-704-A· 36-4025

Source: 1986 Budget Appendix

Program, project, activity	Direct Loan Limitation	
	Base	Sequester
1. Disbursements of new guaranteed loan	$11,986,522 1/	$515,420
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
Total	$11,986,522	$515,420

1/ Average of CBO/OMB estimate. VA's 1986 estimate prior to Gramm-Rudman was $12,084,543,000.

Office of the
Administrator
of Veterans Affairs

Washington DC 20420

Veterans
Administration

FEB 5 1986

Honorable Richard Shelby
Chairman
Subcommittee on Housing and
Memorial Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In response to your letter of January 29, 1986, following is an explanation as to how VA arrived at its estimate of loan originations for FY 1986.

The initial estimates of workload are prepared within the Department of Veterans Benefits as part of the internal budget process. Specifically, the Loan Guaranty Service has principal responsibility for developing these projected workloads. Multi year budget projections encompass a wide range of considerations such as veteran population statistics and long range economic forecasts. However, short range projections are more influenced by current trends, particularly interest rates, appraisal requests, and new housing starts. These items are valid indicators of future loan activity in the near term.

Mortgage interest rates clearly have the most weight in estimating the level of loan activity. The latest estimate for FY 1986 was made this past summer in conjunction with the FY 1987 budget process. At that time the maximum interest rate for home loans was 11 1/2 percent. Based on all the information available to us at that time, our estimate was for a modest increase in loan volume in FY 1986 over the FY 1985 level of $11.5 billion. In mid November 1985 mortgage interest rates began dropping significantly. On December 13, 1985 VA lowered its maximum home loan rate to 10 1/2 percent, the lowest level in 6 years. VA clearly did not expect this sharp decrease in interest rates at the time the FY 1986 estimate was made. Activity to date for FY 1986, as of December 31, 1985, has been approximately 62,500 loans totalling $4.2 billion. Our current thinking is that VA would guarantee approximately 270,000 loans amounting to $18.2 billion during FY 1986, without the limitation imposed by Pub. L. 99-177, The Balanced Budget and Emergency Deficit Control Act of 1985.

I hope the information we have provided will be useful to you.

Sincerely,

Everett Alvarez, Jr.

EVERETT ALVAREZ, JR.
Acting Administrator

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Rudolph G. Penner
Director

February 5, 1986

Honorable Richard Shelby
Chairman
Subcommittee on Housing and Memorial Affairs
Committee on Veterans' Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This is in response to your letter of January 29, 1986, inquiring into the CBO estimate of VA home loan originations in fiscal year 1986. An average of the CBO estimate and an estimate prepared by the VA constituted the base upon which the Gramm-Rudman sequester was calculated. [1]

The CBO estimate of 1986 loan originations was based on preliminary actual data for fiscal year 1985 provided by the VA. The preliminary data indicated that loan volume had remained fairly steady during 1985 at approximately 15,000 new loans guaranteed per month. Based on these data, CBO estimated a small increase in new loan originations and a slight decrease in refinancing loans for 1986. The VA had provided a very similar estimate for inclusion in the President's FY 1987 budget. An average of the CBO and VA estimate was used for the sequester order.

This week we received "final" actual data for fiscal year 1985. These data show loan volumes rising in July and averaging almost 1,200 more loans per month than had been recorded in the preliminary data. In addition, we have received actual data for the first quarter of FY 1986, which indicate a continued increase in loan activity. In light of this new information, it now appears that the CBO estimate of unrestrained loan activity in 1986 may be too low. We would currently estimate such loan activity at approximately 21,000 loans per month, which would result in a

---

[1] The sequester was applied only to new guaranteed loans originated by the VA. Certain direct loans held by the agency that are sold with a guaranty are not subject to sequester, even though they are considered new loan guarantees and included in the total amount of guaranty commitments made by the agency. This discussion pertains only to sequesterable new loan originations.

total loan volume of between $16 and $17 billion. This compares with our earlier estimate of a 1986 loan volume of $11.9 billion. It should be noted, however, that estimates of home loan activity contain a high degree of uncertainty. A wide variety of factors, including but not limited to mortgage interest rates and general economic activity, could cause the loan volume to be significantly different from these estimates.

With best wishes,

Sincerely,

Rudolph G. Penner
Director

cc: Honorable G. V. Montgomery
Chairman
Committee on Veterans' Affairs

Honorable John P. Hammerschmidt
Ranking Minority Member

Office of Public
and Consumer Affairs

Washington DC 20420
(202) 389-2747

Veterans Administration

News Release

FOR IMMEDIATE RELEASE

VA ANNOUNCES ADJUSTMENTS ON ENTITLEMENT PAYMENTS

The Veterans Administration announced today that payment adjustments will be necessary in some of its entitlement programs to successfully implement the Balanced Budget and Emergency Deficit Control Act of 1985.

Effective March 1, benefit payments for veterans and eligible dependents and survivors enrolled in education and training programs will be reduced 6.7 percent. That means a decrease of $33 a month, from $376 to $343 for a single veteran training full time.

Assistance for vocational rehabilitation trainees will be reduced by 13.1 percent or a monthly reduction of $41 for a single veteran training full time.

In addition, grant payments for Specially Adapted Housing will be reduced by 8 percent. Maximum grant payments for automobile and adaptive equipment will drop from $5,000 to $4,600.

Other adjustments announced by the VA include a reduction of commitments in the Home Loan Guaranty Program. The agency will no longer approve requests for refinancing of existing loans or guaranteed loans based on restored entitlement or partial entitlement. Also, VA will limit loans approved to a maximum of $90,000.

The agency also announced that it will impose a 10 percent reduction on the payment of allowances for burial, burial plots, and headstones.

In the insurance program, interest rates for policyholder loans will be maintained at 11 percent instead of implementing a planned reduction to 9 percent.

According to VA officials, the reductions will remain in effect through Sept. 30, 1986, the end of the current fiscal year. The agency's 1987 budget restores the affected payments to their original levels.

# # #

Contact: VA News Service
(202) 389-2741
After 5 PM (ET)
(301) 493-8427

February 6, 1986

(Distr: W,I,II,2,3,
7,9,10)

Office of Public
and Consumer Affairs

Washington DC 20420
(202) 389-2741

Veterans Administration

News Release

FOR IMMEDIATE RELEASE

VA TO CONTINUE HOME LOAN PROGRAM

The Veterans Administration today announced that it will continue to operate its home loan guaranty program without restrictions until it reaches the loan commitment limit mandated by 1986 deficit control measures. VA officials said the current $11.5 billion ceiling on guarantees could be reached April 1.

Acting VA Administrator Everett Alvarez, Jr., said he was aware of several proposals in Congress to raise the loan commitment limit and permit the program to operate without interruption until the end of the current fiscal year on Sept. 30.

"The VA fully supports a legislative remedy to this problem," Alvarez said, "providing the Congress will also allow VA to implement a 2 percent loan funding fee asked for in its fiscal 1987 budget, allowing the VA to meet its future deficit reduction goals."

The Office of Management and Budget has endorsed the VA's position.

The VA action came as a result of what officials said was a "grossly underestimated" level of loan activity in 1986. VA loan guaranty director Robert M. O'Toole explained that demand for VA-backed loans has risen dramatically in the past year, which saw the interest rate drop five times to 10-1/2 percent — the lowest since 1979. O'Toole said recent surveys of the mortgage market indicated VA's original projections would soon be exceeded.

In announcing continuation of an unrestricted loan program, VA withdrew plans to impose certain loan limitations that were scheduled March 1. These included denying requests for refinancing, and for restored or partial guaranty entitlement, as well as setting a $90,000 limit on loans. "We abandoned these temporary measures," O'Toole said, "once it became apparent they would not have prevented us from exceeding our ceiling."

# # #

Contact: VA News Service
(202) 389-2741

February 19, 1986
(Dist: W,I,II,2,5
7,9,10)

FRANK H. MURKOWSKI, ALASKA, CHAIRMAN
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STROM THURMOND, SOUTH CAROLINA
ROBERT T. STAFFORD, VERMONT
ARLEN SPECTER, PENNSYLVANIA
JEREMIAH DENTON, ALABAMA
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SPARK M. MATSUNAGA, HAWAII
DENNIS DECONCINI, ARIZONA
GEORGE J. MITCHELL, MAINE
JOHN D. ROCKEFELLER IV, WEST VIRGINIA
ANTHONY J. PRINCIPI, CHIEF COUNSEL/STAFF DIRECTOR
JONATHAN B. STEINBERG, MINORITY CHIEF COUNSEL/
STAFF DIRECTOR

United States Senate

COMMITTEE ON VETERANS' AFFAIRS
WASHINGTON, DC 20510

February 5, 1986

Mr. Everett Alvarez
Acting Administrator of
Veterans' Affairs
810 Vermont Avenue, N.W.
Washington, D.C. 20420

Dear Everett,

I am writing to request information regarding various issues that arise under the President's February 1, 1986, order, issued pursuant to section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985, sequestering FY 1986 budgetary resources, and the "Program, Project, Activity Detail" documents submitted by the VA to provide information regarding the impact of the order on each affected program, project, and activity.

In light of the fact that, unless modified by legislation, the order as issued will take effect on March 1, 1986, I would greatly appreciate your providing an expedited response to this letter. Also, in responding please provide numbered answers corresponding to the numbering of the following questions.

1. Regarding the VA's Loan Guaranty Revolving Fund, the VA's submission indicated that a limitation will be placed on the issuance of new loan guaranties in FY 1986. It stated that the FY 1986 base is $11,986,522,000 and that the amount being sequestered is $515,420,000.

(a) Will there be a specific limitation placed on the issuance of VA loan guaranties in FY 1986 and, if so, at what level will such a limitation be set?

(b) Please indicate specifically how it is planned that such a limitation will be implemented and whether implementation will result in any cases of refusal or withholding of guaranties of any loans as to which a guaranty would otherwise be granted under current laws and regulations.

(c) If any guaranties would be so refused or withheld, please provide an analysis explaining how the implementation of the order would be consistent with the provision in section 252(e) of the Act prohibiting any person who is eligible for a benefit from being denied eligibility by reason of a Presidential order under section 252.

(d) I question the President's authority to order the sequestration of VA loan guaranty commitments in FY 1986. According to the Directors of the Congressional Budget Office and the Office of Management and Budget, in their January 15 report under section 251(a) of the Act, and the Comptroller General of the United States, in his January 20 report under section 251(b), the net effect of the limitation would be to increase FY 86 outlays, and thus the FY 86 deficit, by $5,350,000. The reason, of course, is that the limitation would directly cause FY 86 receipts of loan-guaranty fees under section 1829 of title 38, United States Code, to decrease.

However, the authorities in the Act for sequestration are expressed in terms of reductions that would reduce outlays and the deficit. Thus, section 251(a)(3)(B) states that "the reductions [in non-defense programs] necessary to eliminate the other half of the . . . adjusted deficit excess, in the case of fiscal year 1986 . . . shall be made in outlays under [non-defense accounts] . . . ." Section 251(a)(3)(F)(iv)(I) further requires that sequestrations "under . . . non-defense programs [other than those to which an exemption or special rule applies] shall be applied on a uniform percentage basis so as to reduce new budget authority, new loans guarantee commitments, new direct loan obligations, and [entitlement spending] . . . to the extent necessary to achieve any remaining required outlay reductions [under section 251(a)(3)(B), quoted above]."

Since the clearly stated mandate in the Act is to make reductions "in outlays" for the purpose of eliminating the FY 1986 adjusted deficit excess and to apply sequestrations "on a uniform percentage basis . . . to the extent necessary to achieve . . . required outlay reductions", there appears to be an absence of authority to sequester any budgetary resource where the effect is not to reduce outlays or the deficit during the fiscal year involved. In this connection, I would also note that the Act contains no authority or requirement to sequester budgetary resources in order to reduce any future year deficit.

In light of the foregoing, I would appreciate your providing me with a copy of any legal analysis prepared by the Administration in support of the sequestration of VA loan guaranty commitments.

(e) Please also advise what is the agency's best estimate of the total amount of FY 86 VA loan guaranty commitments that would be made in the absence of a sequestration.

2. Although $936,000 of the FY 1986 appropriation for the State veterans homes program and $128,000 of the FY 1986 appropriation for the State veterans cemeteries program would be sequestered, the OMB and CBO Directors' reports indicate that no FY 86 outlay savings would be achieved. In light of the issues raised in item 1(d), above, regarding the loan guaranty program, please provide me with a copy of any legal analysis that has been prepared supporting these sequestrations.

3. The VA's "Program, Project, Activity Detail" reflects a direct loan limitation in the case of each of the six VA insurance accounts.

(a) Do these limitations conflict with the U.S. Government's contractual obligation to veteran-policyholders?

(b) What are the VA's plans for implementing such limitations?

(c) Please explain how implementation would be consistent with the prohibition in section 252(e) of the Act against the denial of eligibility for a benefit.

4. Please advise how, consistent with section 252(e), the agency plans to implement the sequestration of appropriations for items that are provided in kind, such as burial flags, headstones, and grave markers.

5. With respect to the Medical care account, please provide for each program, project, or activity a breakdown showing the amounts in the base that are attributed to administrative and non-administrative expenses for purposes of the provisions of section 256(b) and (k), under which certain administrative expenses are subject to a 4.3-percent reduction and non-administrative expenses to a maximum reduction of one percent in FY 86.

6. A February 4 VA "Fact Sheet" indicated that benefit payments under the Vietnam-era GI Bill and the dependents' and survivors' educational assistance program will be reduced by 8.7 percent; that subsistence allowances under the rehabilitation program for service-connected disabled veterans will be reduced by 13.1 percent; and that grants under the specially adapted housing and adaptive automobile assistance programs will be reduced by 8 percent. Please explain how these varying percentage reductions were determined pursuant to section 252(a)(1)(B) of the Act.

7. Please provide a detailed description and explanation of the treatment of the Chapter 32 Post-Vietnam Era Veterans' Education Assistance program and the Chapter 30 New GI Bill under the February 1 Presidential order.

8. Please explain why, in the "Program, Project, Activity Detail" for the Direct Loan Revolving Fund, the amount shown as being sequestered is "-$43,000".

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Since the need for this information is urgent, I request that, as soon as the information for any part of your response is available, you arrange for a member of your staff to provide it informally to the Committee's Minority General Counsel, Ed Scott (224-6262). I would also, of course, greatly appreciate your efforts to ensure that your formal response is expedited.

As always, I am grateful for your cooperation and assistance.

With best personal regards,

Cordially,

Alan Cranston
Ranking Minority Member

cc: Donald Ivers, Esquire
Conrad Hoffman
Dr. John Ditzler
John Vogel
Dr. Rudolph Penner
Honorable Charles A. Bowsher